

CITY OF NORTHWOOD, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2016

- Prepared By -

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CITY OF NORTHWOOD, IOWA

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CITY OF NORTHWOOD, IOWA

OFFICIALS

(Before January 2016)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Jane Bloomingdale	Mayor	January 2018
Doug Helgeland	Mayor Pro tem	January 2016
Gary Nerlien	Council Member	January 2016
Russell Meyer	Council Member	January 2016
Roger Rustad	Council Member	January 2018
Rhonda Taylor	Council Member	January 2018
Amber Julseth	Clerk/Treasurer	June 30, 2016
John Greve	Attorney	Indefinite

(After January 2016)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Jane Bloomingdale	Mayor	January 2018
Doug Helgeland	Mayor Pro tem	January 2020
Roger Rustad	Council Member	January 2018
Rhonda Taylor	Council Member	January 2018
David Tenold	Council Member	January 2020
Dan Reeder	Council Member	January 2020
Amber Julseth	Clerk/Treasurer	June 30, 2016
John Greve	Attorney	Indefinite



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Northwood, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Northwood as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Northwood's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 4 through 8 and 31 through 36, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated November 1, 2016 on my consideration of the City of Northwood's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Northwood's internal control over financial reporting and compliance.



Charles City, Iowa
November 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Northwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 27%, or approximately \$700,000, from fiscal year 2015 to fiscal year 2016. Other general receipts decreased approximately \$433,000, while capital grants, contributions and restricted interest decreased approximately \$367,000.

Disbursements of the City's governmental activities decreased 37%, or approximately \$1,072,000, in fiscal year 2016 from fiscal year 2015. Public works, culture and recreation and community and economic development disbursements decreased approximately \$607,000, \$274,000 and \$248,000, respectively.

The City's total cash basis net position decreased 4%, or approximately \$83,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$25,000 and the cash basis net position of the business type activities decreased by approximately \$108,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds, including the Water, Sewer, Sewer Replacement, and Sewer Plant Project Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,399,002 to \$1,424,458. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

(Expressed in Thousands)

	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 90	\$ 66
Operating grants, contributions and restricted interest	246	223
Capital grants, contributions and restricted interest	34	401
General receipts:		
Property tax	959	928
Local option sales tax	193	167
Unrestricted interest on investments	3	7
Other general receipts	332	765
Total receipts	<u>\$1,857</u>	<u>\$2,557</u>
Disbursements:		
Public safety	\$ 349	\$ 365
Public works	381	988
Health and social services	17	20
Culture and recreation	333	607
Community and economic development	259	507
General government	248	175
Debt service	215	212
Capital projects	-	-
Total disbursements	<u>\$1,802</u>	<u>\$2,874</u>
Change in cash basis net position before transfers	\$ 55	\$ (317)
Transfers, net	<u>(30)</u>	<u>(25)</u>
Change in cash basis net position	\$ 25	\$ (342)
Cash basis net position beginning of year	<u>1,399</u>	<u>1,741</u>
Cash basis net position end of year	<u>\$1,424</u>	<u>\$1,399</u>

The City's total receipts for governmental activities decreased by 27%, or approximately \$700,000. The total cost of all programs and services decreased approximately \$1,072,000, or 37%, with no new programs added this year. The decrease in receipts was primarily the result of other general receipts during the year.

The cost of all governmental activities this year was approximately \$1,802,000 compared to approximately \$2,874,000 last year. However, as shown in the Statement of Activities and Net Position on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$1,432,792 because some of the cost was paid by those directly benefited from the programs (\$90,167) by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$279,656). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$2,557,000 to approximately \$1,857,000.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 235	\$ 231
Sewer	353	297
Other	173	162
General receipts:		
Unrestricted interest on investments	3	3
Note proceeds	345	-
Total receipts	<u>\$1,109</u>	<u>\$ 693</u>
Disbursements:		
Water	\$ 211	\$ 222
Sewer	835	203
Other	201	186
Total disbursements	<u>\$1,247</u>	<u>\$ 611</u>
Change in cash basis net position before transfers	\$ (138)	\$ 82
Transfers, net	<u>30</u>	<u>25</u>
Change in cash basis net position	\$ (108)	\$ 107
Cash basis net position beginning of year	<u>665</u>	<u>558</u>
Cash basis net position end of year	<u>\$ 557</u>	<u>\$ 665</u>

Total business type activities receipts for the fiscal year were approximately \$1,109,000 compared to approximately \$693,000 last year. The cash balance decreased by approximately \$108,000 from the prior year. Total disbursements for the fiscal year increased by 104% to a total of approximately \$1,247,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Northwood completed the year, its governmental funds reported a combined fund balance of \$1,424,458, an increase of more than \$25,000 from last year's total of \$1,399,002. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$19,213 from the prior year to \$475,405. This increase was due to an increase in 28E casino receipts.

The Special Revenue, Road Use Tax Fund cash balance increased \$52,587 to \$170,408. This increase is due to a significant increase in Road Use Tax receipts.

The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$28,968, a decrease from the previous year. The decrease was the result of increased TIF incentives.

The Special Revenue, Local Option Sales Tax Property Tax Relief Fund cash balance decreased \$3,162 to \$164,789. The decrease is due to an increase in transfers out.

The Special Revenue, Revolving Loan Fund cash balance decreased by \$49,183 to \$183,472. The increase is due to loan repayments.

The Debt Service, General Obligation Fund cash balance increased \$581 from the prior year to \$78,457. The increase is due to receipts greater than debt payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased by \$29,954 to \$119,567, due primarily to an increase in water rates.

The Enterprise, Sewer Fund cash balance decreased by \$106,146 to \$141,081 due primarily to an increase in operating disbursements.

The Enterprise, Sewer Replacement Fund cash balance increased by \$1,055 to \$192,106, due primarily to interest income.

The Enterprise, Sewer Plant Project Fund cash balance is negative \$30,842 due to disbursements paid prior to receiving State Resolving Fund draw downs.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 23, 2016 and resulted in an increase in disbursements and transfers out of \$760,000. The City increased revenues and other financing sources \$578,000. The City exceeded the amounts budgeted in the culture and recreation and general government functions.

DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$1,178,000 in bonds and other long-term debt outstanding, compared to approximately \$1,023,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)

	June 30,	
	2016	2015
General obligation bonds	\$ 833	\$ 1,023
Anticipatory notes	345	-
	<u>\$ 1,178</u>	<u>\$ 1,023</u>

Debt increased as a result of issuance of anticipatory notes.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,178,000 is significantly below its constitutional debt limit of \$4,737,820.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Northwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Another concern evolves around increased energy costs for the ensuing year and beyond. The increased costs have added as much as thirty percent to segments of the budget. Holding the budget in line becomes challenging while attempting to maintain and improve city services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Amber Julseth, City Clerk, 627 Central, Northwood, Iowa 50459-1584.

Basic Financial Statements

CITY OF NORTHWOOD, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 349,032	\$ -	\$ -	\$ -
Public works	381,027	-	245,799	33,857
Health and social services	16,922	23,448	-	-
Culture and recreation	333,362	66,719	-	-
Community and economic development	258,925	-	-	-
General government	247,868	-	-	-
Debt Service	<u>215,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$1,802,615</u>	<u>\$ 90,167</u>	<u>\$ 245,799</u>	<u>\$ 33,857</u>
Business type activities:				
Water	\$ 210,759	\$ 235,828	\$ -	\$ -
Sewer	835,199	353,148	-	-
Other	<u>200,827</u>	<u>172,677</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$1,246,785</u>	<u>\$ 761,653</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$3,049,400</u>	<u>\$ 851,820</u>	<u>\$ 245,799</u>	<u>\$ 33,857</u>

(Continued)

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (349,032)	\$ -	\$ (349,032)
(101,371)	-	(101,371)
6,526	-	6,526
(266,643)	-	(266,643)
(258,925)	-	(258,925)
(247,868)	-	(247,868)
(215,479)	-	(215,479)
<u>\$ (1,432,792)</u>	<u>\$ -</u>	<u>\$ (1,432,792)</u>
\$ -	\$ 25,069	\$ 25,069
-	(482,051)	(482,051)
<u>-</u>	<u>(28,150)</u>	<u>(28,150)</u>
<u>\$ -</u>	<u>\$ (485,132)</u>	<u>\$ (485,132)</u>
<u>\$ (1,432,792)</u>	<u>\$ (485,132)</u>	<u>\$ (1,917,924)</u>

CITY OF NORTHWOOD, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

General Receipts and Transfers:

- Property and other city tax levied for:
 - General purposes
 - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Note proceeds
- Miscellaneous
- Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

- Restricted:
 - Nonexpendable:
 - Cemetery perpetual care
 - Expendable:
 - Streets
 - Urban renewal purposes
 - Debt service
 - Other purposes
- Unrestricted

Total cash basis net position

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 671,811	\$ -	\$ 671,811
581	-	581
286,559	-	286,559
193,676	-	193,676
3,078	2,740	5,818
	344,669	344,669
332,142	-	332,142
<u>(29,599)</u>	<u>29,599</u>	<u>-</u>
<u>\$ 1,458,248</u>	<u>\$ 377,008</u>	<u>\$ 1,835,256</u>
\$ 25,456	\$ (108,124)	\$ (82,668)
<u>1,399,002</u>	<u>664,717</u>	<u>2,063,719</u>
<u>\$ 1,424,458</u>	<u>\$ 556,593</u>	<u>\$ 1,981,051</u>
\$ 112,869	\$ -	\$ 112,869
170,408	-	170,408
28,968	-	28,968
78,457	-	78,457
322,919	-	322,919
<u>710,837</u>	<u>556,593</u>	<u>1,267,430</u>
<u>\$ 1,424,458</u>	<u>\$ 556,593</u>	<u>\$ 1,981,051</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

		Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax Property Tax Relief
RECEIPTS:				
Property tax	\$ 525,309	\$ -	\$ -	\$ -
Tax increment financing	-	-	286,559	-
Other city tax	-	-	-	96,838
Licenses and permits	5,503	-	-	-
Use of money and property	16,031	-	-	-
Intergovernmental	-	245,799	-	-
Charges for service	104,555	-	-	-
Miscellaneous	319,423	-	-	-
Total receipts	<u>\$ 970,821</u>	<u>\$ 245,799</u>	<u>\$ 286,559</u>	<u>\$ 96,838</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 349,032	\$ -	\$ -	\$ -
Public works	137,359	193,832	-	-
Health and social services	16,482	-	-	-
Culture and recreation	298,551	-	-	-
Community and economic development	8,000	-	13,453	-
General government	218,603	-	-	-
Debt service	-	-	-	-
Total disbursements	<u>\$1,028,027</u>	<u>\$ 193,832</u>	<u>\$ 13,453</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (57,206)</u>	<u>\$ 51,967</u>	<u>\$ 273,106</u>	<u>\$ 96,838</u>
Other financing sources (uses):				
Transfers in	\$ 215,000	\$ 620	\$ -	\$ -
Transfers out	(138,581)	-	(290,479)	(100,000)
Total other financing sources (uses)	<u>\$ 76,419</u>	<u>\$ 620</u>	<u>\$ (290,479)</u>	<u>\$ (100,000)</u>
Change in cash balances	\$ 19,213	\$ 52,587	\$ (17,373)	\$ (3,162)
Cash balances beginning of year	<u>456,192</u>	<u>117,821</u>	<u>46,341</u>	<u>167,951</u>
Cash balances end of year	<u>\$ 475,405</u>	<u>\$ 170,408</u>	<u>\$ 28,968</u>	<u>\$ 164,789</u>
Cash Basis Fund Balances:				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Urban renewal purposes	-	-	28,968	-
Debt service	-	-	-	-
Streets	-	170,408	-	-
Other purposes	-	-	-	164,789
Assigned for:				
Cemetery	26,345	-	-	-
Library memorial trust	133,717	-	-	-
Other	290	-	-	-
Unassigned	<u>315,053</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 475,405</u>	<u>\$ 170,408</u>	<u>\$ 28,968</u>	<u>\$ 164,789</u>

See Notes to Financial Statements.

<u>Revolving Loan</u>	<u>Debt Service General Obligation</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ 581	\$ 146,502	\$ 672,392
-	-	-	286,559
-	-	96,838	193,676
-	-	-	5,503
817	-	-	16,848
-	-	-	245,799
-	-	-	104,555
-	-	12,915	332,338
<u>\$ 817</u>	<u>\$ 581</u>	<u>\$ 256,255</u>	<u>\$1,857,670</u>
\$ -	\$ -	\$ -	\$ 349,032
-	-	49,836	381,027
-	-	440	16,922
-	-	34,811	333,362
50,000	-	187,472	258,925
-	-	29,265	247,868
-	215,479	-	215,479
<u>\$ 50,000</u>	<u>\$ 215,479</u>	<u>\$ 301,824</u>	<u>\$1,802,615</u>
<u>\$ (49,183)</u>	<u>\$ (214,898)</u>	<u>\$ (45,569)</u>	<u>\$ 55,055</u>
\$ -	\$ 215,479	\$ 183,362	\$ 614,461
-	-	(115,000)	(644,060)
<u>\$ -</u>	<u>\$ 215,479</u>	<u>\$ 68,362</u>	<u>\$ (29,599)</u>
\$ (49,183)	\$ 581	\$ 22,793	\$ 25,456
232,655	77,876	300,166	1,399,002
<u>\$ 183,472</u>	<u>\$ 78,457</u>	<u>\$ 322,959</u>	<u>\$1,424,458</u>
\$ -	\$ -	\$ 112,869	\$ 112,869
-	-	-	28,968
-	78,457	-	78,457
-	-	-	170,408
183,472	-	158,130	506,391
-	-	-	26,345
-	-	-	133,717
-	-	51,960	52,250
-	-	-	315,053
<u>\$ 183,472</u>	<u>\$ 78,457</u>	<u>\$ 322,959</u>	<u>\$1,424,458</u>

CITY OF NORTHWOOD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Enterprise</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Sewer Replacement</u>
Operating Receipts:			
Charges for service	\$229,002	\$ 353,148	\$ -
Miscellaneous	6,826	-	-
Total operating receipts	<u>\$235,828</u>	<u>\$ 353,148</u>	<u>\$ -</u>
Operating disbursements:			
Business type activities	<u>210,759</u>	<u>459,688</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 25,069	\$ (106,540)	\$ -
Non-operating receipts:			
Interest on investments	<u>844</u>	<u>394</u>	<u>1,055</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 25,913</u>	<u>\$ (106,146)</u>	<u>\$ 1,055</u>
Other financing sources:			
Note proceeds	\$ -	\$ -	\$ -
Transfers in	3,681	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>\$ 3,681</u>	<u>\$ -</u>	<u>\$ -</u>
Change in cash balances	\$ 29,594	\$ (106,146)	\$ 1,055
Cash balances beginning of year	<u>89,973</u>	<u>247,227</u>	<u>191,051</u>
Cash balances end of year	<u>\$119,567</u>	<u>\$ 141,081</u>	<u>\$ 192,106</u>
Cash Basis Fund Balances			
Committed for other purposes	\$ -	\$ -	\$ 192,106
Unrestricted	<u>119,567</u>	<u>141,081</u>	<u>-</u>
Total cash basis fund balances	<u>\$119,567</u>	<u>\$ 141,081</u>	<u>\$ 192,106</u>

See Notes to Financial Statements.

<u>Sewer Plant Project</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ 165,787	\$ 747,937
-	6,890	13,716
<u>\$ -</u>	<u>\$ 172,677</u>	<u>\$ 761,653</u>
 375,511	 200,827	 1,246,785
 \$ (375,511)	 \$ (28,150)	 \$ (485,132)
 -	 447	 2,740
 \$ (375,511)	 \$ (27,703)	 \$ (482,392)
\$ 344,669	\$ -	\$ 344,669
-	29,599	33,280
-	(3,681)	(3,681)
<u>\$ 344,669</u>	<u>\$ 25,918</u>	<u>\$ 374,268</u>
\$ (30,842)	\$ (1,785)	\$ (108,124)
 -	 136,466	 664,717
<u>\$ (30,842)</u>	<u>\$ 134,681</u>	<u>\$ 556,593</u>
 \$ -	 \$ 46,694	 \$ 238,800
(30,842)	87,987	317,793
<u>\$ (30,842)</u>	<u>\$ 134,681</u>	<u>\$ 556,593</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies

The City of Northwood is a political subdivision of the State of Iowa located in Worth County. It was first incorporated in 1859 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Northwood has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the North Iowa Area Council of Governments and the Worth County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent, Cemetery Perpetual Care Fund.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies - continued

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Property Tax Relief Fund is used to account for local option sales tax revenues to be used for property tax relief.

The Revolving Loan Fund is used to account for money loaned to businesses in the City.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Sewer Replacement Fund accounts for funds reserved for future sewer repairs and replacements.

The Enterprise, Sewer Plant Project Fund accounts for the capital improvements to the City's sewer system.

C. Measurement Focus and Basis of Accounting

The City of Northwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies - continued

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the culture and recreation and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2017	\$ 199,000	\$ 20,531
2018	203,000	15,764
2019	211,000	10,931
2020	220,000	5,687
Total	<u>\$ 833,000</u>	<u>\$ 52,913</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(3) Bonds Payable - continued

The resolution providing for the issuance of the general obligation bonds includes the following provision:

- (a) At the option of the City, bonds due on the Drinking Water Bond issue of June 10, 2000 and Streets & Bridges issue of October 29, 2009, are subject to redemption and prepayment in inverse numerical order beginning June 1, 2010 and June 1, 2017, respectively, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. There were no non-employer contributing entities to IPERS.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$40,858.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$318,390 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.006404%, which was an increase of 0.000090% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$26,851, \$61,213 and \$74,136 respectively.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's Proportionate share of the net pension liability	\$ 557,444	\$ 318,390	\$ 116,612

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 10 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$646 for single coverage and \$1,788 for family coverage. For the year ended June 30, 2016, the City contributed \$140,963 and plan members eligible for benefits did not contribute to the plan.

(6) Law Enforcement Contract

The City of Northwood entered into an agreement with the Worth County Sheriff's Department for the purpose of providing the City with law enforcement services. The amount paid on the contract by the City for the year ended June 30, 2016 amounted to \$320,535.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable, comp time payable and sick leave payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 26,394
Comp time	5,166
Sick leave	<u>33,874</u>
Total	<u>\$ 65,434</u>

This liability has been computed based on rate of pay in effect at June 30, 2016.

(8) Industrial Development Revenue Bonds

The City has issued a total of \$2,800,000 of multifamily elderly revenue bonds under the provision of Chapter 419 of the Code of Iowa, of which \$2,100,000 is outstanding at June 30, 2016. The bonds and related principal are payable solely by Lutheran Retirement Home, Inc., and the bond principal and interest do not constitute liabilities of the City.

(9) Economic Development

On August 1, 2003, the City loaned \$20,000 to Grass Lake Furniture Co. The loan proceeds were to be used to operate a retail business in Northwood. The loan is a non-interest bearing loan. Grass Lake Furniture Co. is obligated to repay the City in monthly installments of \$238 beginning August 1, 2004. The loan balance at June 30, 2016 was \$7,381.

On February 26, 2007, the City loaned \$18,000 to Worth Brewing Company, LLC. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Worth Brewing Company, LLC is obligated to repay the City \$8,000 in annual installments of \$1,335 beginning February 26, 2011. The remaining \$10,000 was forgivable after three years. The loan balance at June 30, 2016 was paid off.

On September 13, 2007, the City loaned \$16,000 to Grass Lake Furniture Co. The loan proceeds were to be used to operate a retail business in Northwood. The loan is a non-interest bearing loan. Grass Lake Furniture Co. is obligated to repay the City in monthly installment of \$190 beginning April 30, 2008. The loan balance at June 30, 2016 was \$14,095.

On January 17, 2011, the City loaned \$9,871 to Manuel Ramirez, Shawna Seger, and Noe Garduno Flores D/B/A Tequila's Mexican Bar & Grill. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Tequila's Mexican Bar & Grill is obligated to repay the City \$4,035 in annual installments of \$1,645 beginning January 2015. The remaining \$4,936 was forgivable after three years. The loan balance at June 30, 2016 was paid off.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(9) Economic Development - continued

On March 9, 2011, the City loaned \$12,000 to Thomas Capranos D/B/A Northwood Laundromat. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Thomas Capranos is obligated to repay the City \$7,000 in annual installments of \$1,500 beginning March 10, 2012. The remaining \$5,000 is forgivable after five years. The loan balance at June 30, 2016 was paid off.

On November 5, 2012 the City loaned \$8,800 to Rick Rosenberg D/B/A Orion Fitness Center. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Rick Rosenberg is obligated to repay the City \$6,800 in one annual installment of \$2,000 beginning November 5, 2015 and two annual installments of \$2,400 beginning November 5, 2016. The remaining \$2,000 is forgivable after three years. The loan balance at June 30, 2016 was paid off.

On August 8, 2013 the City loaned \$20,000 to Aaron Street D/B/A Northwood Chiropractic. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Aaron Street is obligated to repay the City \$7,000 in five annual installments of \$1,500 beginning August 8, 2015. The remaining \$13,000 is forgivable after five years. The loan balance at June 30, 2016 was \$17,200.

On December 19, 2013, the City loaned \$25,000 to Teresa George D/B/A Shade Tree Liquors. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$25,000.

On January 15, 2014 the City loaned \$3,715 to Jennifer Lombard D/B/A Finders Keepers. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$3,715.

On March 3, 2014, the City loaned \$4,000 to Peter Ausenhus D/B/A Worth Brewing Company. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$4,000.

On June 18, 2014, the City loaned \$12,367 to Worth County Historical Society. The loan proceeds were to be used for a building in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$12,367.

On June 18, 2014, the City loaned \$1,019 to DS Liquors. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$1,019.

On October 29, 2014, the City loaned \$25,000 to Dr. David Penfold, D/B/A Northwood Dental. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after five years. The loan balance at June 30, 2016 was \$25,000.

On December 22, 2014, the City loaned \$6,361 to Fat Jill's Bakery. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Fat Jill's Bakery is obligated to repay the City \$3,000 in annual installments of \$1,000 beginning December 22, 2016. The remaining \$3,361 is forgivable after five years. The loan balance at June 30, 2016 was \$5,361.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(9) Economic Development - continued

On April 14, 2015, the City loaned \$1,497 to Signatures Sports Bar. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$1,497.

On June 9, 2015, the City loaned \$25,000 to Worth Brewing Company, LLC. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after five years. The loan balance at June 30, 2016 was \$25,000.

On June 15, 2015, the City loaned \$6,353 to Worth County Community of Promise. The loan proceeds were to be used for a business in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$6,353.

On June 29, 2015, the City loaned \$102,500 to Northwood Economic Development Corporation. The loan proceeds were to be used for Economic Development in Northwood. The loan is forgivable after three years. The loan balance at June 30, 2016 was \$102,500.

On July 9, 2015, the City loaned \$15,000 to North Star Xpress. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. North Star Xpress is obligated to repay the City \$5,000 in annual installments of \$1,667 beginning July 9, 2016. The remaining \$10,000 is forgivable after three years. The loan balance at June 30, 2016 was \$15,000.

On August 11, 2015, the City loaned \$10,000 to Worth Mutual/Olson Insurance. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Worth Mutual/Olson Insurance is obligated to repay the City \$5,000 in annual installments of \$1,000 beginning August 11, 2016. The remaining \$5,000 is forgivable after five years. The loan balance at June 30, 2016 was \$10,000.

On August 26, 2015, the City loaned \$25,000 to Strike Zone Bowling Alley. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Strike Zone Bowling Alley is obligated to repay the City \$5,000 in annual installments of \$1,000 beginning August 26, 2016. The remaining \$20,000 is forgivable after five years. The loan balance at June 30, 2016 was \$25,000.

On December 11, 2015, the City loaned \$8,700 to Signatures Supper Club. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Signatures Supper Club is obligated to repay the City \$2,000 in annual installments of \$1,000 beginning December 11, 2016. The remaining \$6,700 is forgivable after two years. The loan balance at June 30, 2016 was \$8,700.

On March 31, 2016, the City loaned \$25,000 to Waking Miss Winifred. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Waking Miss Winifred is obligated to repay the City \$25,000 in annual installments of \$5,000 beginning March 1, 2019 and \$10,000 on March 1, 2020 and March 1, 2021. The loan balance at June 30, 2016 was \$25,000.

On March 31, 2016, the City loaned \$25,000 to Patterson Construction. The loan proceeds were to be used for a business in Northwood. The loan is a non-interest bearing loan. Patterson Construction is obligated to repay the City \$5,000 in annual installments of \$2,500 beginning March 31, 2017. The remaining \$20,000 is forgivable after two years. The loan balance at June 30, 2016 was \$25,000.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(9) Economic Development - continued

The City has funds set aside for various housing assistance programs within the City. Applications are reviewed by the council. The amount expended by the City for the 2016 fiscal year was \$78,772.

The City allocated funds for business development within the City. Applications are considered by a separate business development committee. The amount expended by the City for the 2016 fiscal year was \$108,700.

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$103,681.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(10) **Risk Management** - continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with Workers Compensation and Aviation in the amount of \$36,713 and \$3,022, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$3,200 during the year ended June 30, 2016.

(12) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 75,000
	Local Option Sales Tax -	
	Property Tax Relief	100,000
	Local Option Sales Tax -	
	Infrastructure	40,000
		<u>\$ 215,000</u>

CITY OF NORTHWOOD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(12) Interfund Transfers - continued

Special Revenue:		
Housing Assistance Program	General	\$ 83,362
Revitalization	General	\$ 25,000
	Special Revenue:	
	Urban Renewal Tax Increment	75,000
		<u>\$ 100,000</u>
Road Use Tax	General	\$ 620
Debt Service:		
General Obligation Bonds	Special Revenue:	
	Urban Renewal Tax Increment	\$ 215,479
Enterprise:		
Water	Enterprise:	
	Water Deposit	\$ 3,681
Taxi	General	\$ 29,599
Total		<u>\$ 647,741</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(13) Commitments

At June 30, 2016, the following commitments had been made:

Project	Total Contract	Costs Incurred To Date
Wastewater project	\$8,225,800	\$ -
Wastewater engineering	1,035,000	375,511
	<u>\$9,260,800</u>	<u>\$ 375,511</u>

(14) Deficit Balance

The Sewer Plant Project Enterprise Fund had a deficit balance of \$30,842 at June 30, 2016. The deficit balance was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of project funds.

(15) Subsequent Events

On July 25, 2016 the City authorized the issuance of \$3,500,000 General Obligation Sewer Improvement Bonds.

Other Information

CITY OF NORTHWOOD, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 671,327	\$ -	\$ -
Tax increment financing	286,559	-	-
Other city tax	193,676	-	-
Licenses and permits	5,503	-	-
Use of money and property	16,848	2,740	-
Intergovernmental	245,799	-	-
Charges for service	104,555	747,937	-
Miscellaneous	333,403	13,716	-
Total receipts	<u>\$1,857,670</u>	<u>\$ 764,393</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 349,032	\$ -	\$ -
Public works	381,027	-	-
Health and social services	16,922	-	-
Culture and recreation	333,362	-	-
Community and economic development	258,925	-	-
General government	247,868	-	-
Debt service	215,479	-	-
Business type activities	-	1,246,785	-
Total disbursements	<u>\$1,802,615</u>	<u>\$1,246,785</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 55,055	\$ (482,392)	\$ -
Other financing sources, net	<u>(29,599)</u>	<u>374,268</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 25,456	\$ (108,124)	\$ -
Balances beginning of year	<u>1,399,002</u>	<u>664,717</u>	<u>-</u>
Balances end of year	<u>\$1,424,458</u>	<u>\$ 556,593</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 671,327	\$ 624,969	\$ 624,969	\$ 46,358
286,559	275,000	275,000	11,559
193,676	197,011	265,011	(71,335)
5,503	24,500	24,500	(18,997)
19,588	14,500	14,500	5,088
245,799	742,006	742,006	(496,207)
852,492	757,000	767,000	85,492
347,119	354,100	354,100	(6,981)
<u>\$2,622,063</u>	<u>\$2,989,086</u>	<u>\$ 3,067,086</u>	<u>\$ (445,023)</u>
\$ 349,032	\$ 353,739	\$ 353,739	\$ 4,707
381,027	327,535	397,535	16,508
16,922	14,532	24,532	7,610
333,362	274,534	279,534	(53,828)
258,925	369,461	519,461	260,536
247,868	179,559	179,559	(68,309)
215,479	215,479	215,479	-
1,246,785	1,120,057	1,645,057	398,272
<u>\$3,049,400</u>	<u>\$2,854,896</u>	<u>\$ 3,614,896</u>	<u>\$ 565,496</u>
\$ (427,337)	\$ 134,190	\$ (547,810)	\$ 120,473
<u>344,669</u>	<u>-</u>	<u>500,000</u>	<u>(155,331)</u>
\$ (82,668)	\$ 134,190	\$ (47,810)	\$ (34,858)
<u>2,063,719</u>	<u>2,477,146</u>	<u>2,477,146</u>	<u>(413,427)</u>
<u>\$1,981,051</u>	<u>\$2,611,336</u>	<u>\$ 2,429,336</u>	<u>\$ (448,285)</u>

CITY OF NORTHWOOD, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$760,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the culture and recreation and general government functions.

CITY OF NORTHWOOD, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS*
(IN THOUSANDS)
OTHER INFORMATION

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.006404%	0.006314%
City's proportionate share of the net pension liability	\$ 318	\$ 255
City's covered-employee payroll	\$ 457	\$ 442
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	69.58%	57.60%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

*In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS
(IN THOUSANDS)
OTHER INFORMATION

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 41	\$ 39
Contributions in relation to the statutorily required contribution	<u>(41)</u>	<u>(39)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 457	\$ 442
Contributions as a percentage of covered-employee payroll	8.97%	8.80%

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

CITY OF NORTHWOOD, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Special		
	Local Option Sales Tax Infrastructure	Employee Benefits	Housing Assistance Program
RECEIPTS:			
Property tax	\$ -	\$ 145,437	\$ -
Other city tax	96,838	-	-
Miscellaneous	-	-	2,152
Total receipts	<u>\$ 96,838</u>	<u>\$ 145,437</u>	<u>\$ 2,152</u>
DISBURSEMENTS:			
Operating:			
Public works	\$ -	\$ 49,836	\$ -
Health and social services	-	440	-
Culture and recreation	-	34,811	-
Community and economic development	-	-	78,772
General government	-	29,265	-
Total disbursements	<u>\$ -</u>	<u>\$ 114,352</u>	<u>\$ 78,772</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 96,838</u>	<u>\$ 31,085</u>	<u>\$ (76,620)</u>
Other financing sources (uses):			
Transfers in	\$ -	\$ -	\$ 83,362
Transfers out	(40,000)	(75,000)	-
Total other financing sources (uses)	<u>\$ (40,000)</u>	<u>\$ (75,000)</u>	<u>\$ 83,362</u>
Change in cash balances	\$ 56,838	\$ (43,915)	\$ 6,742
Cash balances beginning of year	38,081	107,126	7,814
Cash balances end of year	<u>\$ 94,919</u>	<u>\$ 63,211</u>	<u>\$ 14,556</u>
Cash Basis Fund Balances:			
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for other purposes	94,919	63,211	-
Assigned for:			
Revitalization	-	-	-
Housing assistance	-	-	14,556
Unassigned	-	-	-
Total cash basis fund balances	<u>\$ 94,919</u>	<u>\$ 63,211</u>	<u>\$ 14,556</u>

See Accompanying Independent Auditor's Report.

Revenue		Permanent	
Rental		Cemetery	
Inspection	Revitalization	Perpetual	Total
		Care	
\$ 1,065	\$ -	\$ -	\$ 146,502
-	-	-	96,838
120	8,470	2,173	12,915
<u>\$ 1,185</u>	<u>\$ 8,470</u>	<u>\$ 2,173</u>	<u>\$ 256,255</u>
\$ -	\$ -	\$ -	\$ 49,836
-	-	-	440
-	-	-	34,811
-	108,700	-	187,472
-	-	-	29,265
<u>\$ -</u>	<u>\$ 108,700</u>	<u>\$ -</u>	<u>\$ 301,824</u>
<u>\$ 1,185</u>	<u>\$ (100,230)</u>	<u>\$ 2,173</u>	<u>\$ (45,569)</u>
\$ -	\$ 100,000	\$ -	\$ 183,362
-	-	-	(115,000)
<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 68,362</u>
\$ 1,185	\$ (230)	\$ 2,173	\$ 22,793
315	36,134	110,696	300,166
<u>\$ 1,500</u>	<u>\$ 35,904</u>	<u>\$ 112,869</u>	<u>\$ 322,959</u>
\$ -	\$ -	\$ 112,869	\$ 112,869
-	-	-	158,130
-	35,904	-	35,904
-	-	-	14,556
<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
<u>\$ 1,500</u>	<u>\$ 35,904</u>	<u>\$ 112,869</u>	<u>\$ 322,959</u>

CITY OF NORTHWOOD, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise			
	Taxi	Meter Deposit	Garbage	Total
Operating receipts:				
Charges for service	\$ 35,423	\$ -	\$130,364	\$165,787
Miscellaneous	-	6,890	-	6,890
Total operating receipts	\$ 35,423	\$ 6,890	\$130,364	\$172,677
Operating disbursements:				
Business type activities	62,401	3,499	134,927	200,827
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (26,978)	\$ 3,391	\$ (4,563)	\$ (28,150)
Non-operating receipts:				
Uses of money and property	-	201	246	447
Excess (deficiency) of receipts over (under) disbursements	\$ (26,978)	\$ 3,592	\$ (4,317)	\$ (27,703)
Other financing sources (uses):				
Transfers in	\$ 29,599	\$ -	\$ -	\$ 29,599
Transfers out	-	(3,681)	-	(3,681)
Total other financing sources (uses)	\$ 29,599	\$ (3,681)	\$ -	\$ 25,918
Change in cash balances	\$ 2,621	\$ (89)	\$ (4,317)	\$ (1,785)
Cash balances beginning of year	24,224	46,783	65,459	136,466
Cash balances end of year	\$ 26,845	\$ 46,694	\$ 61,142	\$134,681
Cash Basis Fund Balances:				
Unrestricted	\$ 26,845	\$ -	\$ 61,142	\$ 87,987
Committed for other purposes	-	46,694	-	46,694
Total cash basis fund balances	\$ 26,845	\$ 46,694	\$ 61,142	\$134,681

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2016

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Streets & Bridges	10-29-09	1.50 - 3.50%	\$ 900,000
Drinking Water	6-10-00	1.75	1,690,000
Anticipatory Notes:			
Sewer Project	7-1-15	0.00	\$ 480,000
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 485,000	\$ -	\$ 90,000	\$ 395,000	\$ 15,295	\$ -
538,000	-	100,000	438,000	9,415	-
<u>\$1,023,000</u>	<u>\$ -</u>	<u>\$ 190,000</u>	<u>\$ 833,000</u>	<u>\$ 24,710</u>	<u>\$ -</u>
 \$ -	 \$ 344,669	 \$ -	 \$ 344,669	 \$ -	 \$ -
<u>\$1,023,000</u>	<u>\$ 344,669</u>	<u>\$ 190,000</u>	<u>\$1,177,669</u>	<u>\$ 24,710</u>	<u>\$ -</u>

CITY OF NORTHWOOD, IOWA
BOND MATURITIES
JUNE 30, 2016

GENERAL OBLIGATION BONDS

Year Ending June 30,	Drinking Water		Streets & Bridges		
	<u>Issued June 10, 2000</u>		<u>Issued October 29, 2009</u>		
	Interest Rates	Amount	Interest Rates	Amount	Total
2017	1.75%	\$ 104,000	3.10%	\$ 95,000	\$ 199,000
2018	1.75	108,000	3.10	95,000	203,000
2019	1.75	111,000	3.30	100,000	211,000
2020	1.75	<u>115,000</u>	3.50	<u>105,000</u>	<u>220,000</u>
Total		<u>\$ 438,000</u>		<u>\$ 395,000</u>	<u>\$ 833,000</u>

See Accompanying Independent Auditor's Report.

CITY OF NORTHWOOD, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Receipts:				
Property tax	\$ 672,392	\$ 643,156	\$ 643,745	\$ 651,843
Tax increment financing	286,559	285,340	261,097	267,429
Other city tax	193,676	167,464	164,556	164,644
Licenses and permits	5,503	6,192	6,607	7,946
Use of money and property	16,848	15,224	16,136	20,131
Intergovernmental	245,799	623,196	215,359	217,487
Charges for service	104,555	64,104	69,630	68,609
Special assessments	-	-	-	2,054
Miscellaneous	332,338	778,864	320,912	449,216
Total	<u>\$1,857,670</u>	<u>\$2,583,540</u>	<u>\$1,698,042</u>	<u>\$1,849,359</u>
Disbursements:				
Operating:				
Public safety	\$ 349,032	\$ 365,025	\$ 379,782	\$ 254,835
Public works	381,027	988,493	407,068	697,490
Health and social services	16,922	19,636	15,493	11,122
Culture and recreation	333,362	607,251	368,449	660,389
Community and economic development	258,925	506,519	212,100	128,414
General government	247,868	175,636	184,957	196,827
Debt Service	215,479	211,620	211,997	221,739
Capital projects	-	-	38,418	-
Total	<u>\$1,802,615</u>	<u>\$2,874,180</u>	<u>\$1,818,264</u>	<u>\$2,170,816</u>

See Accompanying Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 613,134	\$ 601,593	\$ 606,648	\$ 601,719	\$ 532,291	\$ 548,070
270,172	268,943	246,761	239,192	261,044	284,207
140,556	153,190	132,862	153,892	148,842	154,150
5,193	4,620	6,110	5,555	4,701	6,747
22,144	28,086	31,674	39,178	72,070	81,120
244,944	254,354	458,205	283,809	211,205	195,470
65,555	66,583	59,726	59,881	54,376	52,051
330	-	-	-	92	588
341,158	391,034	221,006	402,190	353,790	395,172
<u>\$1,703,186</u>	<u>\$1,768,403</u>	<u>\$1,762,992</u>	<u>\$1,785,416</u>	<u>\$1,638,411</u>	<u>\$1,717,575</u>
\$ 314,332	\$ 350,436	\$ 269,340	\$ 310,689	\$ 283,158	\$ 230,440
553,585	431,830	363,250	369,727	312,772	282,887
9,332	15,263	11,285	8,109	6,626	1,490
285,211	284,634	349,751	443,912	452,149	240,473
136,762	148,524	151,167	170,782	87,495	82,676
180,742	208,819	149,034	159,063	133,933	155,033
272,777	304,303	231,916	292,050	294,816	281,474
-	7,571	438,989	100,000	-	-
<u>\$1,752,741</u>	<u>\$1,751,380</u>	<u>\$1,964,732</u>	<u>\$1,854,332</u>	<u>\$1,570,949</u>	<u>\$1,274,473</u>



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Northwood, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated November 1, 2016. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Northwood's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Northwood's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Northwood's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Northwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C), and (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. There are no deficiencies described in the accompanying Schedule of Findings that I consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Northwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Northwood's Responses to the Findings

The City of Northwood's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The City of Northwood's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Northwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Charles City, Iowa
November 1, 2016

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one person has control over most of the accounting and banking functions.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Countersignature of Checks - Checks are prepared and signed by one individual.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

- (C) Post-dated Checks - I noted several checks that cleared the bank prior to the date the check was issued.

Recommendation - The City should avoid the use of post-dating checks.

Response - We will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

- (D) Transfer of Funds - I noted a transfer of funds that was not formally approved by the Council.

Recommendation - The City should formally approve the transfers of money between funds.

Response - We will do this in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended prior to disbursements exceeding the budget in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Meland, Employee, Equipment Rental	Rental	\$3,200

In accordance with Chapter 362.5 (3)(k) of the Code of Iowa, the transactions with Jim Meland may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

Conclusion - Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- (6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF NORTHWOOD, IOWA
Schedule of Findings
Year Ended June 30, 2016

Other Findings Related to Required Statutory Reporting: - continued

- (8) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation - The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

Response - We will look into this.

Conclusion - Response acknowledged.

- (9) Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.

- (10) Financial Condition - The Sewer Plant Project Enterprise Fund had a deficit balance of \$30,842 at June 30, 2016.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - Upon receipt of project funds, the deficit will be eliminated.

Conclusion - Response accepted.